REVIEWS.

Economics: An Account of the Relations between Private Property and Public Welfare. By ARTHUR TWINING HADLEY. New York, G. P. Putnam's Sons, 1896. — 496 pp.

Professor Hadley has felt himself compelled to abandon the time-honored division of the science into the departments of production, distribution, exchange and consumption. The successive chapters of his book are accordingly headed as follows: "Public and Private Wealth," "Economic Responsibility," "Competition," "Speculation," "Investment of Capital," "Combination of Capital," "Money," "Credit," "Profits," "Wages," "Machinery and Labor," "Coöperation," "Protective Legislation," "Government Revenue." It is difficult to exaggerate the wealth of thought and the keenness of analysis contained in these chapters. Each one is crammed full of matter, presented in a most attractive manner, illustrated by references to history and to contemporary business methods, and often summed up in some phrase or some statement of likeness or unlikeness that is pregnant with suggestiveness. The distribution of topics under the particular chapter is always suggestive, if sometimes surprising. Under "Economic Responsibility," for example, we find slavery, property, the theory of population, poverty and poor-relief; under "Investment of Capital" we find the wage system, private land-ownership, payment of interest and limited liability; under "Profits" is found the rate of interest, economic rent and commercial crises; under "Coöperation," governmental management of industrial enterprises.

Although the reader is sometimes surprised by this distribution of subjects, he finds each topic discussed exhaustively and with unity of purpose. Thus, the chapter on "Money" is altogether admirable, treating both the theory and practical questions, such as the free coinage of silver; the chapter on "Speculation" introduces material that is new in most English treatises and of absorbing interest; the formula that wages depend on maximum economy of consumption throws a flood of light on the various theories of wages; and the thoroughly practical treatment of usury laws, of the unearned increment, of the regulation of monopoly profits, of the

single tax and of progressive taxation, admitting the force of the theoretical arguments but emphasizing the practical difficulties, will command attention from every one.

When a book is so very good, it seems ungracious to criticise it because it is not better. Economists, however, whether of the closet or of the market-place, and especially teachers of economics, will involuntarily ask themselves whether Professor Hadley, in his *Economics*, does for "the readers of to-day that which Mill did with such signal success for those of half a century ago" (Preface). As regards his treatment of practical problems, this question can undoubtedly be answered in the affirmative; but in respect to his development of a system, which should carry conviction as a logical whole, I am afraid that it must be answered in the negative.

The reason for this is the arrangement of the book itself: the breaking away from the traditional arrangement is unfortunate in two respects. In the first place, a division of the subject into departments, even if not strictly logical, makes it easier for the student to master the subject. Professor Hadley has been unfortunate, I think, in over-estimating the capacity of students, whether "engaged in the business of the world or preparing themselves to do it," to follow his fundamental idea through the mazes of practical discussion..

In a second respect the arrangement of the book is unfortunate. It puts forward as the central idea the notion of the speculator or undertaker. Wages are an investment of capital; interest is but commuted profits; property exists because society chooses to commit the control of productive power to a few leaders; even the mistakes of the speculator benefit society because they are made on a small scale. All this will strike the superficial reader as a mere apotheosis of Walker's or Mallock's "captain of industry." This leadership is certainly one of the salient points of the modern industrial organization, and the tendency is to emphasize it in treatises on political economy. Even Marshall, towards the end of his first volume, declares that "in the modern world the employer or undertaker . . . acts as the boss of the great industrial wheel. The interests of owners of capital and of workers radiate towards him and from him; and he holds them all together in a firm grip" (*Principles*, p. 617).

This truth is demonstrated in an overwhelming way by Professor Hadley. But the emphasis given to it by the arrangement of the book seems to exalt that which is the method of industrial organization to a position as the end and goal of social organization. This gives to

the whole book a tone of finality and of harshness, which recalls some of the old charges against political economy as the dismal science. Adam Smith avoided such an effect (and could avoid it) by emphasizing the interests of the nation as against the mistaken notions held by those who controlled governmental power. Mill avoided it by the attention he paid to peasant proprietorship and to the "probable future of the labouring class," and by his evident sympathy with the aims of socialism. Marshall avoids it by a display of pure sentiment, as in the statement in his first chapter that "the question of the abolition of poverty is that which lends its chief interest to economics." With Professor Hadley, admiration for the framework of society seems to overshadow consideration of the fate of the mass of human beings in that society. This is not really the case, for the author firmly believes that private wealth means public welfare. That an erroneous impression may be gained from the book is, however, a great misfortune; for the work is otherwise likely to do much good among the people who think that poverty can be abolished.

Economists will feel great interest in learning Professor Hadley's views in regard to the theory of distribution. In accordance with his attempt to keep theory and application together, they are scattered through the book. In his chapter on "Profits," however, he writes as follows:

> The distributive process, whose workings have been described in this chapter, may be summed up as follows:
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> The competition of capitalists with one another leads them to advance to the laborers a sum equal to the expected price of the product, less a compensation for waiting and the risks attendant upon it, sufficient to induce the proprietors to hazard the required amount of capital. The advances constitute wages; the excess of the product above such advances constitutes profits.
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> By a somewhat similar process, the competition of the more active capitalists with one another leads them to guarantee to those who will lend them capital a fixed rate of income for the use of such capital. This income, guaranteed but not advanced, is known as interest; the remaining profit is known either as net profit for skill in management, or economic rent for foresight in investment. The separation of interest from net profit or rent results in a separation of the reward for waiting from the rewards for risk and foresight.
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> Wages are, in all ordinary cases, guaranteed and advanced by capitalists as a body. Interest is guaranteed, but not advanced, by one group of capitalists to another. The justice of the charge made for such guarantees and advances is to be defended, not because the enjoyment of interest

corresponds to the sacrifice of waiting or because the amount of profit corresponds to the risk of loss, but because society finds itself best served by the system of guarantees and advances which the institutions of wages and interest serve to encourage [p. 299].

This statement may be interpreted in a variety of ways; and in whatever way it is interpreted, it will be apt to do injustice to the rest of the book and to the fundamental thought of the author. That is to say, the statement is of such a nature that, if one says it is too narrow, he can be answered that the rest of the book is an amplification of it; and if one says that it is too broad, he can be answered that it is limited by what is said in the rest of the book.

In the first place, the statement is too narrow. It merely describes what is going on (for the most part) in the modern industrial world, namely, the process by which the employer pays wages and interest on borrowed capital, and gets the full product. This, however, is not a complete statement of the facts, for it does not include the method of remunerating the thousands of independent artisans and farmers. Even if it were so inclusive, it would not answer the real problem of distribution by telling what determines the shares of the employers, of the capitalists and especially of the laborers. Professor Hadley may answer that this summary applies only to profit and interest; and that it explains only the outward *process* of distribution, but is not a theory of distribution. The impression will, however, remain that the controlling force in the whole process of distribution is the employer — that the only influence is competition of capitalists with one another.

The real process of distribution is a much more complicated matter than would appear from this statement. It involves competition on both sides, and is influenced by the environment and by social institutions. This idea is developed in later parts of the book, notably in the discussion of minimum wages (p. 305) and of the residual theory of wages (pp. 317, 318), where it is made very clear that the process of distribution described above is not broad enough to be considered a theory of distribution. I think that it would have been helpful for his readers if Professor Hadley had gathered together the principles developed under "Wages" and "Machinery and Labor," and, adding them to the theory of profits, had formulated a comprehensive theory of distribution. That he does not attempt to do this seems to be due (1) to a repugnance to certain theories which in his opinion explain too much, and

(2) to a desire to reintroduce the "historical" explanation which in the abstract analysis is often lost sight of, and which thus (as the Germans would say) comes to its rights.

Professor Hadley characterizes certain modern theories of natural value as a "curious aftermath of the old theories of natural rights" (p. 148, n.). They assume, according to him, "a certain normal degree of intelligence in the investment of capital and development of land," and this we have "no right to assume." The criticism does not seem to me to be just. The reason why rewards are imputed to land, labor and capital is not because they or their owners have any "natural right" to it," but because society wishes to employ land, labor and capital in the most economical way, and (under the system of private property and free competition) offers a reward for their use in proportion to their efficiency. The normal degree of intelligence is no greater and no less than that assumed for the speculator in advancing wages and guaranteeing interests. Again, the theory "that the price paid for an article is distributed among laborers and capitalists on the basis of the marginal utility of the labor and capital which have contributed to its production" is criticised by Professor Hadley on the ground that it does not take into account the mistakes of the speculator and that we do not know the relative values of products at two different periods. This does not seem to me to be a full answer to the theories. According to von Wieser, at least, experience and tradition would be our guides in this matter; and, although these are fallible guides, they must approximate a true result in the mass of cases, or else society would starve to death through not knowing how to make use of its resources.

Rejecting all these theories, Professor Hadley returns to the historical explanation in the words already quoted above:

> The justice of the charge made for such guarantees and advances is to be defended, not because the enjoyment of interest corresponds to the sacrifice of waiting or because the amount of profit corresponds to the risk of loss, but because society finds itself best served by the system of guarantees and advances which the institutions of wages and interest serve to encourage.

This is certainly fundamental, but it makes the statement too broad. Social expediency is, indeed, the basis of the institution of private property and of the principle of economic freedom. As Professor Hadley himself says so epigrammatically:

We may fairly grant the claim of the socialist that capital originated in robbery. In like manner, labor originated in slavery. Neither fact has any appreciable bearing on present issues. Neither fact tends in the least to prove either that the capitalist is a thief or the laborer an inferior.

Private property and economic freedom are, however, relative terms, and either may be modified at the pleasure of society. Both are limited in a great variety of ways in the modern industrial organization. It is not sufficient simply to allege social expediency as the ground for the toleration of the modern distributive process. The reasons for it must be shown fully, and emphasis must be laid upon the limitations of the abstract principle which are found in actual practice. Quantitative measurements of the result of this distributive process should also be sought. The whole question is one largely of emphasis; and I should say that the limitations, as in the case of Irish land tenure, are not sufficiently emphasized, while the doings and the sufferings of the speculator are unduly magnified.

These are, however, but slight criticisms of a book which is certainly very notable, even if it is not destined to leave a mark on economic thought.

RICHMOND MAYO-SMITH.

Wages and Capital; an Examination of the Wages Fund Doctrine. By F. W. TAUSSIG, Professor of Political Economy in Harvard University. New York, D. Appleton & Co., 1896. — xviii, 329 pp.

This book consists of two main parts — a historical resumé of the wages-fund controversy, and a presentation of the author's own conclusions on the subject. The historical portion is by no means unimportant: in fact, it cannot fail to receive commendation from all quarters for impartiality of treatment, acuteness of criticism, fullness of knowledge and clearness of style. This review, however, must be confined to the author's "positive theory" as contained in the first 125 pages of the volume.

Among the limitations which Professor Taussig places on the problem he is investigating is one that deserves a special word of comment. He limits the problem to the determination of "the total that goes to laborers as a whole." "It is only with the total," he says, "that the wages fund, or the discussion of wages and capital, has to do" (p. 109). "The causes which determine the share which a particular set of laborers shall have are different," and present a